Docket Optical System - Comments of PG&E

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January 24, 2006

VIA ELECTRONIC DELIVERY

Docket No. 02REN 1194
California Energy Commission
1516 Ninth Street, MS-4
Sacramento, CA 958145512

Re: **Comments of Pacific Gas and Electric Company**

Pacific Gas and Electric Company (PG&E) respectfully submits the attached comments on the Committee Draft of the California Energy Commission's 2006 Renewable Energy Investment Plan.

Thank you for considering our comments. Please feel free to call me at (415) 973-6463 if you have any questions about this matter.

Sincerely,

Les Guliasi

LGG:ld

cc: Jackalyne Pfannenstiel, Commissioner
John L. Geesman, Commissioner
Gabe Herrera, CEC
Heather Raitt, CEC

Attachment

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BEFORE THE CALIFORNIA ENERGY COMMISSION

Implementation of Renewables Legislation (Public Utilities Code sections 399 through 399.9 [SB 1194, AB 995]	)))))	Docket No. 00-REN-1194

Comments of Pacific Gas and Electric Company on
The Committee Draft of the California Energy Commission's
2006 Renewable Energy Investment Plan

I. INTRODUCTION

Pacific Gas and Electric Company (PG&E) has previously commented on the Staff Draft Report version of the "2006 Renewable Energy Investment Plan" which the California Energy Commission (CEC) will submit to the Legislature on or before March 31, 2006. PG&E now submits its comments on the Committee Draft of the 2006 Investment Plan.

PG&E appreciates the Committee's deletion of the "reverse auction" to allocate Supplemental Energy Payments (SEPs) for eligible RPS contracts as PG&E recommended in its initial comments. PG&E's comments, then and now, are intended to provide the CEC with the practical perspective of an investor-owned utility purchaser of renewables that has a procurement obligation to fulfill. Given PG&E's need to procure roughly 711 GWh of incremental renewable deliveries each year, PG&E is still concerned that the proposed reduction in funding for New Renewable Facilities during 2007-2012 from 51.5% of the Renewable Resource Trust Fund (RRTF) to only 38% of the RRTF will deprive renewable resources of the funds they need to materialize and generate electricity.

A. Existing Funding for New Renewable Facilities Must Be Maintained to Achieve the State's Renewables Procurement Goals.

The stated purpose of the 2006 Investment Plan is to recommend an allocation of RRTF money to be collected between January 1, 2007, and January 1, 2012. The enabling legislation provides that, "The investment plan's objective shall be to increase, in the near term, the quantity of California's electricity generated by in-state renewable energy resources, while protecting system reliability, fostering resource diversity, and obtaining the greatest environmental benefits for California residents." (Pub. Util. Code Section 399.6(a)(1).)

The Governor and the state's key energy agencies concur that California's near term objective is to achieve 20% renewables in the state's energy supply by the year 2010. PG&E is also committed to this objective and is concerned that the proposed reduction of RRTF funds to the New Renewable Facilities Program may be insufficient to support the achievement of the 20% renewables goal by 2010.

The annual incremental procurement targets of the three major IOUs will require approximately 160,000 MWh of new renewable electricity per year (in 2005 terms). The goal of 20% procurement by the year 2010 accelerates the annual procurement target to approximately 180,000 MWh per year based on expected 2005 actual deliveries and current retail sales levels. Finally, there is some consideration of a 33% renewables portfolio component by the year 2020. This would result in a very significant goal of approximately 53,000,000 MWh per year based on current combined retail sales levels for all three major IOUs. With actual RPS procurement in 2005 projected to equal approximately 23,000, 000 MWh per year, achievement of a 33% goal would require an overall increase of 30,000,000 MWh per year for the three major IOUs.

B. SEP Funds Were Designed to Assist Parties to Reach the 20% RPS Goal.

The RPS statute promotes the development of renewable resource generation but also provides that an electrical corporation shall not be required to enter into contracts with eligible renewable energy resources that exceed the price the utility pays for other power, as determined by the CPUC (Section 399.15 (a)(1).). To ensure that renewable resources develop even if their costs exceed those of conventional generation, SEPs from funds in the New Renewable Resources Account in the Renewable Resource Trust Fund (RRTF) will be granted by the CEC to eligible renewable energy resources for above-market costs. (Section 399.15(a).) Utility customers automatically contribute to the RRTF through a non-bypassable surcharge on their electric bills; if surcharge funds are not used to subsidize renewable energy that can displace conventional generation, utility customers would be denied benefits for which they have paid. If the utilities pay above-market rates for renewables due to the lack of SEPs, consumers would be required to pay twice for the above-market cost of renewable generation. RRTF funds should be allocated to New Renewable Facilities development to provide adequate SEP funding and avoid inequity to ratepayers.

C. The Committee Draft 2006 Investment Plan Falls Short of Its Purpose.

The Committee Draft's retention of the Staff Draft's proposal to reduce funding to 38% creates an obstacle to achievement of the 20% goal by 2010, as PG&E believes that the renewable projects likely to emerge during the years 2005-2010 will depend significantly upon the availability of SEP payments. The Committee Draft's analysis does not include a broad enough range of SEP payments to conclude that the Committee Draft's proposed level of funding will be adequate. PG&E urges the CEC to restore full funding to the New Renewable Facilities Program.

II. FULL ALLOCATION OF FUNDS TO NEW RENEWABLES IS NEEDED. THE RENEWABLE RESOURCE TRUST FUND ALLOCATION FOR THE RENEWABLES PORTFOLIO STANDARD (RPS) SHOULD NOT BE REDUCED FROM 51.5% TO 38%.

The Committee Draft proposes to limit support of the new renewables standard program to $347.63 million rolled over from SB 1038 supplemental energy SEP allocations and $285 million from funds collected between January 1, 2006, and January 1, 2012, totaling about $633 million.

The Committee Draft's reduction in SEP funding comes at a critical time in the development of renewables. The Committee Draft apparently rationalizes the reduction in SEP funds based on the fact that no SEP funds have been requested to date. This is a short term condition that existed during the program's start-up years, but will not be repeated in the foreseeable future. The first batch of renewables developers – those with whom PG&E and the other utilities have contracted – do not require SEP payments because the less expensive, less risky renewables projects were the first to seek out RPS power purchase agreements. The bidders who signed contracts as a result of PG&E's first solicitation, held in 2004, were largely wind developers. Wind technology is one of the lowest cost renewable technologies, according to the CEC's publication, "Renewable Resources Development Report", 500-03-080FD, November 7, 2003. (See, Table 4, Projected Cost of Renewable Energy in 2005, 2008, 2010, and 2017.) PG&E suspects that participants in later RPS solicitations will become increasingly expensive and require more SEP support.

The Committee Report suggests that as the price of natural gas increases, renewables will become more cost competitive. This would be true only if renewables generation were entirely independent of natural gas. PG&E has observed that fossil fuel is a price input in the case of biomass generations because the feedstock generally must be chopped up into smaller pieces before burning. The fact that this cost must be recovered in the renewables' sale price means that renewables do not necessarily become more competitive as the price of natural gas increases.

The Committee Draft attempts to demonstrate that the reduced level of funding for the new renewables program is adequate to support the volumes of deliveries from renewable resources necessary to achieve 20% by 2010. However, the Committee Report does not demonstrate that a .5 cent/kWh to 1.5 cent/kWh SEP will provide an adequate subsidy to motivate development priced above market, or that the volumes at a more realistic subsidy level will meet the 20% target. As noted above, an IOU is not required to procure renewable generation if insufficient PGC funds are available to make up the difference between the utility's share of the purchase price and the full contract price. The CEC should consider the impact that inadequate SEP funding would have on a utility's ability to achieve its annual procurement targets and ultimately, to reach its renewables procurement goal, whether it be 20% by 2010 or 33% by 2020. Funds available to provide SEPs should not be drained at the very time they will be needed to achieve the state's RPS goals.

III. CONCLUSION

PG&E appreciates the opportunity to comment on the Committee Draft of the 2006 Investment Plan. As stated previously, PG&E recommends that allocation of the RRTF be guided by long-term goals, not short-term results. The Renewable Resource Trust Fund allocation for RPS should not be reduced from 51.5% to 38% because the proposed reduction would be inconsistent with the goal of accelerating the 20% RPS requirement from 2017 to 2010 and with the state's interest in moving toward 33% renewables by 2020.